

**REPORT OF THE AUDIT OF THE  
SCOTT COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**May 10, 2004**



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable George Lusby, Scott County Judge/Executive  
Honorable Bobby Hammons, Scott County Sheriff  
Members of the Scott County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the Scott County Sheriff's Settlement - 2003 Taxes as of May 10, 2004.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Scott County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
SCOTT COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**May 10, 2004**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**SCOTT COUNTY**  
**SHERIFF'S SETTLEMENT - 2003 TAXES**

**May 10, 2004**

Carpenter, Mountjoy & Bressler, PSC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Scott County Sheriff as of May 10, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$16,196,632 for the districts for 2003 taxes, retaining commissions of \$565,947 to operate the Sheriff's office. The Sheriff distributed taxes of \$15,596,811 to the districts for 2003 Taxes. Taxes of \$55,992 are due to the districts from the Sheriff and refunds of \$38,886 are due to the Sheriff from the taxing districts.

**Report Comment:**

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$3,878,160 To Protect Deposits

**Deposits:**

The Sheriff's deposits were not adequately insured and collateralized by bank securities or bonds.





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To the People of Kentucky  
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Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the Scott County Sheriff's Settlement - 2003 Taxes as of May 10, 2004. This tax settlement is the responsibility of the Scott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Scott County Sheriff's taxes charged, credited, and paid as of May 10, 2004, in conformity with the modified cash basis of accounting.

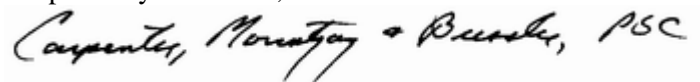
In accordance with Government Auditing Standards, we have also issued our report dated September 23, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable George Lusby, Scott County Judge/Executive  
Honorable Bobby Hammons, Scott County Sheriff  
Members of the Scott County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$3,878,160 To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in a cursive, flowing style.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -  
September 23, 2004

SCOTT COUNTY  
BOBBY HAMMONS, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES

May 10, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,306,348	\$ 2,177,247	\$ 7,897,469	\$ 2,724,463
Tangible Personal Property	137,323	213,123	509,737	640,367
Intangible Personal Property				550,414
Increases Through Exonerations	1,736	2,757	9,692	10,970
Franchise Corporation	71,251	100,443	319,485	
Additional Billings	1,074	1,480	4,368	8,093
Limestone, Sand, and Mineral Reserves	296	494	1,790	597
Penalties	5,211	8,626	31,155	10,799
Adjusted to Sheriff's Receipt		7	3	(592)
Gross Chargeable to Sheriff	<u>\$ 1,523,239</u>	<u>\$ 2,504,177</u>	<u>\$ 8,773,699</u>	<u>\$ 3,945,111</u>
<u>Credits</u>				
Exonerations	\$ 6,716	\$ 9,157	\$ 28,875	\$ 7,884
Discounts	23,688	39,292	137,559	67,587
Delinquents:				
Real Estate	19,519	32,531	118,000	39,333
Tangible Personal Property	2,040	2,548	7,507	6,020
Intangible Personal Property				1,338
Total Credits	<u>\$ 51,963</u>	<u>\$ 83,528</u>	<u>\$ 291,941</u>	<u>\$ 122,162</u>
Taxes Collected	\$ 1,471,276	\$ 2,420,649	\$ 8,481,758	\$ 3,822,949
Less: Commissions *	<u>62,817</u>	<u>102,878</u>	<u>237,489</u>	<u>162,763</u>
Taxes Due	\$ 1,408,459	\$ 2,317,771	\$ 8,244,269	\$ 3,660,186
Taxes Paid	1,440,357	2,319,901	8,186,115	3,650,438
Refunds (Current and Prior Year)	<u>2,004</u>	<u>2,854</u>	<u>8,600</u>	<u>3,310</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>(33,902)</u>	<u>\$ (4,984)</u>	<u>\$ 49,554</u>	<u>\$ 6,438</u>

\* and \*\* See Next Page

The accompanying notes are an integral part of this financial statement.

SCOTT COUNTY  
BOBBY HAMMONS, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES  
May 10, 2004  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	7,704,874
2.8% on	\$	8,481,758

\*\* Special Taxing Districts:

Library District	\$	(2,896)
Health District		(1,452)
Extension District		<u>(636)</u>
Due Districts or (Refund Due Sheriff)	\$	<u><u>(4,984)</u></u>

SCOTT COUNTY  
NOTES TO FINANCIAL STATEMENT

May 10, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of October 31, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$3,878,160 of public funds uninsured and unsecured.

SCOTT COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 10, 2004  
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 16, 2003 through May 10, 2004.

Note 4. Interest Income

The Scott County Sheriff earned \$5,977 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Scott County Sheriff collected \$43,570 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of May 10, 2004, the Sheriff owes \$18,674 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Scott County Sheriff collected \$1,405 of advertising costs and \$2,225 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of May 10, 2004, the Sheriff owes \$1,405 in advertising costs to the county and \$1,415 in advertising fees to his fee account.



COMMENT AND RECOMMENDATION



SCOTT COUNTY  
BOBBY HAMMONS, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

As of May 10, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$3,878,160 To Protect Deposits

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On October 31, 2003, \$3,878,160 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

*None*

INTERNAL CONTROL - REPORTABLE CONDITION/MATERIAL WEAKNESS:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

The official has taken steps to implement compensating controls that are considered to be adequate to offset the lack of segregation of duties.

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable George Lusby, Scott County Judge/Executive  
The Honorable Bobby Hammons, Scott County Sheriff  
Members of the Scott County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Scott County Sheriff's Settlement - 2003 Taxes as of May 10, 2004, and have issued our report thereon dated September 23, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Scott County Sheriff's Settlement - 2003 Taxes as of May 10, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$3,878,160 To Protect Deposits

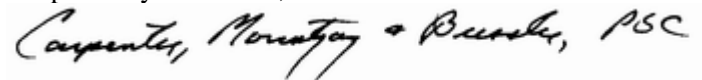
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Scott County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in a cursive, flowing style.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -  
September 23, 2004



